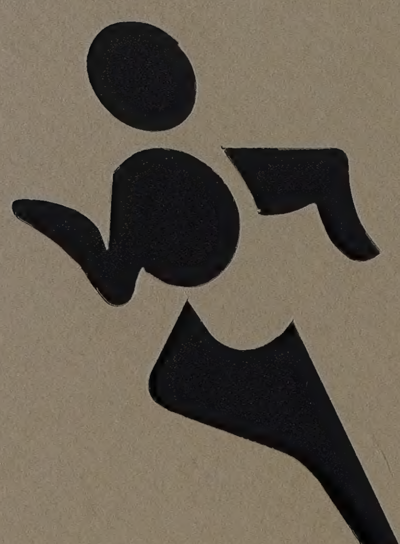
george sparling ltd. annual report 1973



Directors

J. P. LOCKINGTON — Chairman of Board
W. ADSHEAD
L. J. BROWN
J. BRUK
J. S. DONALDSON
J. W. JOHNSON
S. LOCKINGTON
D. O. LONG
B. J. PHILLEY
G. SPARLING

GEORGE SPARLING LTD.
120 West 4th Avenue
Vancouver 10, B.C.

LITHO'D IN CANADA

SPARLINGS

Report to Shareholders for the Six Months Ended August 31, 1973

GEORGE SPARLING LTD.

To the Shareholders:

While Your Board is not satisfied with the financial results for the six months ended August 31, 1973, it is felt that as a result of the recent re-organization of the Corporate Management Group that progress will now be made in many areas which will benefit your company and its Shareholders in the future.

Total sales for the six months ended August 31, 1973 amounted to $3,335,000 compared to $3,138,750 for the same period last year, an increase of 6-¼%. Earnings for the same period decreased by 27% from $133,950 in 1972 to $97,650 for the same period in 1973. The decline in earnings was primarily due to increased payroll costs without corresponding increases in sales, coupled with loss of business due to the Ontario Government's decision to cut back education budgets throughout that Province.

It is hoped in the second half of 1973 and throughout 1974 your Company's decision to diversify its operations in Eastern Canada into retail markets as well as other integrated operations, will minimize the effects of Government policy on its profitability.

During the first half of the year, four important projects were completed that should greatly enhance sales and profits in the future.

1) The opening of a retail outlet ~~in the east~~ at Mississauga, Ontario ~~as well as~~ the ~~relocation to a new and~~ larger ~~location for~~ the Kamloops, ~~B.C. Store~~.
2) ~~The agreement~~ to acquire, John Lockington Sports of Brantford, ~~Ontario as your~~ Company's second eastern retail store as of March 1, 1974.
3) The establishment of Phillips House Ltd. to market and distribute its exclusive sporting goods lines to the sporting goods trade as well as the marketing of products for your Company's manufacturing divisions to the trade outside of the Sparling Group.
4) The establishment of Eastern executive offices as a basis of penetrating the fast growing eastern sporting goods market and the focal point for controlling the many facets of your Company's business interests in Eastern Canada.

It is anticipated that as a result of the re-organization Sparlings made during the second quarter and the initiation of management controls, systems and policies compatible with your Company's needs for the present and future that improved results will start to be reflected during the last quarter of the year and during the next fiscal years.

Signed on Behalf of the Board,
DOUGLAS O. LONG, Director
J. PHILLIP LOCKINGTON, Director

October 29, 1973
Vancouver, B.C.

Cancorp

GEORGE SPARLING LTD.
and subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS
FOR THE SIX MONTHS ENDED AUGUST 31, 1973

	1973 $	1972 $
Sales	3,334,977	3,138,765
Earnings Before Income Taxes	198,420	254,828
Provision for Income Taxes	100,790	120,873
Net Earnings for the Period	97,630	133,955
Ordinary Shares Outstanding	699,419	690,813
Earnings per Ordinary Share	14.0¢	16.8¢
Earnings per Ordinary Share (Fully Diluted — Note 1)	11.9¢	16.4¢

Note 1: The fully diluted earnings per share reflect the potential dilution resulting from the exercise of the conversion privileges on the 8% preferred B shares and the exercise of outstanding stock options.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL
FOR THE SIX MONTHS ENDED AUGUST 31, 1973

	1973 $	1972 $
Source:		
Current Operations	114,830	150,898
Use:		
Fixed asset additions — net	26,965	15,743
Prior period adjustment of income taxes	4,586	
Dividends	17,405	34,642
	48,956	50,385
Increase in working capital	65,874	100,513
	114,830	150,898

annual report 1973

FINANCIAL HIGHLIGHTS

Sales increase from $5,768,962 to $6,274,393, an increase of 9%

Net earnings down from $264,616 to $242,405, a decrease of 8%

Earnings per share (fully diluted) decreased by 8% from 32.3c to 29.7c

Working capital position increased by $184,302, an increase of 17%

officers

W. W. Adshead—Chairman of the Board
J. P. Lockington—President and Chief Executive Officer
D. O. Long—Vice-President

directors

W. W. Adshead
L. J. Brown
B. Compton
J. S. Donaldson
J. P. Lockington
J. B. Philley
G. B. Sparling
J. Bruk
S. L. Lockington

auditors

Cook Burt & Co., Vancouver, B.C.

registrar and transfer agent

Canada Trust Co., Vancouver, B.C.

solicitors

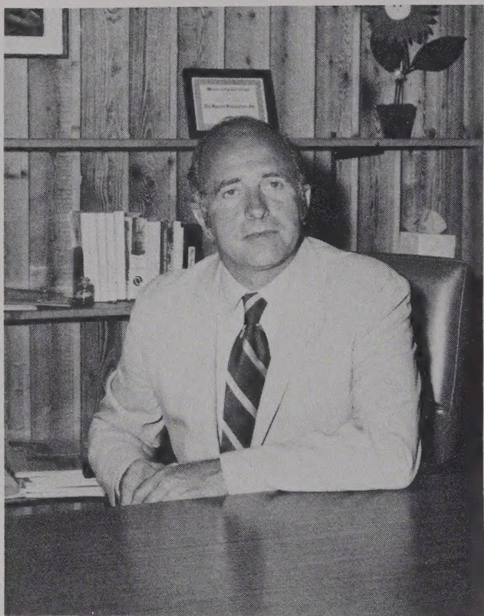
Lawrence & Shaw, Vancouver, B.C.

bankers

Canadian Imperial Bank of Commerce

annual meeting

Wednesday, June 13, 1973
Connaught Room, Georgia Hotel,
Vancouver, B.C.



J. P. LOCKINGTON
President and Chief Executive Officer

On behalf of the Board of Directors I present the Statement of Consolidated Earnings and Balance Sheet of your Company for the fiscal year ended February 28, 1973.

HIGHLIGHTS OF THE PAST YEAR

During the year your Company continued to experience settling-in problems resulting from the rapid growth in the previous year. While we were able to increase sales by approximately ½ million dollars or 9%, net earnings for the year slipped approximately $22,000 or 8%.

The increase in sales was largely due to the opening of a retail outlet in Kamloops, British Columbia, together with the continued demand by the public for leisure time goods.

The decline in earnings was the result of heavy increases in operating costs with no corresponding increase in selling prices. In addition, increased costs of our expansion programme and the escalating costs in the import markets further depressed earnings.

Your Company has managed to improve its working capital position during this period by approximately $184,000 or 17%. This will provide a strong base for future development.

OUTLOOK FOR THE FUTURE

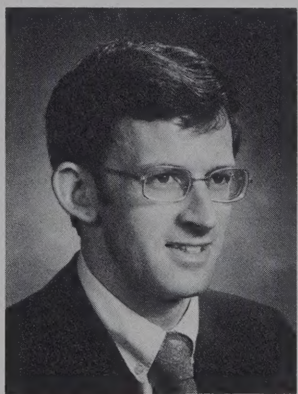
For a number of reasons the outlook for the coming years appears very promising. The efforts of our two manufacturing operations, plus

our new outlet in Toronto, were all proving profitable at the turn of the new year. Our Calgary retail store was relocated late in the year to a new and larger location and early results indicate increased sales. During the coming year your Company plans to open its first retail outlet in Ontario, which will be located in Mississauga, as well as add another retail outlet in British Columbia.

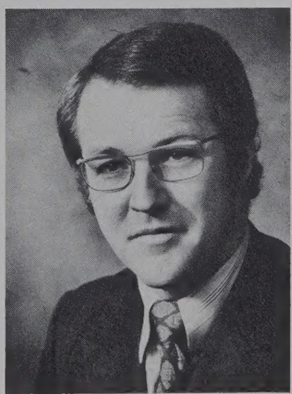
In order to formalize our recent expansion programmes and to provide a national image for your Company your Directors have proposed a name change from George Sparling Ltd. to Adloc Industries Ltd. and the geographic identification of our main operating divisions to be as follows: British Columbia—George Sparling Ltd., Alberta—Premier Sports Ltd. and all other provinces—Lockington Sports Ltd.

Your Directors have continued to develop your Company's management team and I am pleased to announce that Mr. D. O. Long, C.A. and Mr. J. W. Bishop, B.Com., C.A. have recently accepted our invitation to join your Company in the positions of Vice-President and Comptroller respectively. In addition, Mr. Long has agreed to stand for election to your Board of Directors.

On behalf of the Directors, I extend sincere thanks to our many employees across Canada for their loyalty and conscientious effort, and to our shareholders and business associates for their strong support.



J. W. BISHOP, B.Com., C.A.
Comptroller



D. O. LONG, C.A.
Vice-President

consolidated balance sheet

of **GEORGE SPARLING LTD.** and subsidiary companies

As at February 28, 1973

	1973	1972
ASSETS		
CURRENT ASSETS	$	$
Cash	**36,105**	211,577
Accounts receivable	**613,221**	522,909
Merchandise, at the lower of cost and net realizable value	**1,793,105**	1,461,849
Prepaid expenses	**11,072**	23,325
	2,453,503	2,219,660
FIXED ASSETS at cost less accumulated depreciation (1973—$153,408; 1972—$133,402) (note 4)	**162,223**	145,411
EXCESS OF COST OF SHARES of subsidiary companies over book value of net assets at date of acquisition (note 3)	**711,922**	711,922
	3,327,648	3,076,993
LIABILITIES		
CURRENT LIABILITIES		
Bank advances (note 2)	**741,945**	610,000
Accounts payable and accrued liabilities	**403,943**	454,363
Income taxes payable	**41,282**	73,266
	1,187,170	1,137,629
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 3)	**829,610**	835,626
CONTRIBUTED SURPLUS (note 3)	**226,874**	226,874
RETAINED EARNINGS	**1,083,994**	876,864
	2,140,478	1,939,364
	3,327,648	3,076,993

SIGNED ON BEHALF OF THE BOARD

W. W. Adshead, *Director*

J. P. Lockington, *Director*

statement of consolidated earnings and retained earnings

For the year ended February 28, 1973

	1973	1972
	$	$
SALES	**6,274,393**	5,768,962
OPERATING COSTS, including depreciation (1973—$37,146; 1972—$28,729) (note 5)	**5,815,575**	5,287,819
EARNINGS FROM OPERATIONS	**458,818**	481,143
PROVISION FOR INCOME TAXES	**216,413**	216,527
NET EARNINGS FOR THE YEAR (note 6)	**242,405**	264,616
RETAINED EARNINGS—beginning of year	**876,864**	614,748
	1,119,269	879,364
DIVIDENDS—preferred A shares	**1,675**	2,500
—preferred B shares	**33,600**	
	35,275	2,500
RETAINED EARNINGS—end of year	**1,083,994**	876,864

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of George Sparling Ltd. and subsidiary companies at February 28, 1973 and the statements of consolidated earnings and retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at February 28, 1973 and the results of their operations and the source and use of their working capital for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
May 11, 1973

COOK BURT & CO.
Chartered Accountants

statement of consolidated source and use of working capital

For the year ended February 28, 1973

	1973	1972
	$	$
SOURCE		
Current operations	**279,551**	293,345
Working capital of acquired subsidiary companies		330,761
	279,551	624,106
USE		
Fixed asset additions—net	**53,958**	87,944
Redemption of capital stock (note 3)	**6,016**	
Dividends	**35,275**	2,500
	95,249	90,444
INCREASE IN WORKING CAPITAL	**184,302**	533,662
WORKING CAPITAL—beginning of year	**1,082,031**	548,369
WORKING CAPITAL—end of year	**1,266,333**	1,082,031
REPRESENTED BY:		
Current Assets	**2,453,503**	2,219,660
Current Liabilities	**1,187,170**	1,137,629
WORKING CAPITAL—end of year	**1,266,333**	1,082,031

notes to consolidated financial statements

For the year ended February 28, 1973

1. PRINCIPLES OF CONSOLIDATION
These consolidated financial statements include the accounts of George Sparling Ltd. and all subsidiary companies, namely:

Alberta —Premier Sports (Calgary) Ltd.

British Columbia—B.C. Sport Mart Ltd.

Ontario —Jayson Metal Fabrications Limited
—Lockington Sports Limited
—Saxonwear Canada Limited

2. BANK ADVANCES
The bank advances are secured by all assets of the Company and its subsidiaries as evidenced by a demand debenture in the amount of $1,000,000.

3. CAPITAL STOCK
Authorized—
75,000 10% cumulative, redeemable, convertible, preferred A shares without nominal or par value
420,000 8% redeemable, exchangeable, preferred B shares without nominal or par value
1,000,000 ordinary shares without nominal or par value.

	Shares	Gross $	Contributed Surplus $	Net $
Issued and fully paid—				
10% preferred A shares				
Balance—beginning of year	25,000	25,000		25,000
Converted to ordinary shares during the year	(25,000)	(25,000)		(25,000)
Balance—end of year	NIL	NIL		NIL
8% preferred B shares				
Balance—beginning of year	420,000	420,000		420,000
Redeemed during the year	(6,016)	(6,016)		(6,016)
Balance—end of year	413,984	413,984		413,984
Ordinary shares				
Balance—beginning of year	682,813	617,500	226,874	390,626
Issued during the year for preferred A shares	16,666	25,000		25,000
Balance—end of year	699,479	642,500	226,874	415,626
TOTAL	1,113,463	1,056,484	226,874	829,610

Contributed surplus arose on the issuance of shares for net assets of a subsidiary company.

The preferred B shares are redeemable at any time at the Company's option at $1.00 per share and are convertible, at the option of the holder, for ordinary shares on the basis of 3½ preferred B shares for each ordinary share. The payment of the full 8% annual dividend is conditional upon the Companies obtaining certain minimum consolidated net earnings and working capital levels. Subject to these same levels, the Company is required to redeem the preferred B shares annually to a maximum amount of $35,000 per annum. Based on the consolidated financial statements for the year ended February 28, 1973, the Company is obliged to pay a dividend of $17,405 on the preferred B share but is not required to redeem any of these shares.

At February 28, 1973, options to purchase a total of 20,000 ordinary shares from treasury were outstanding, exercisable at various times by 1977, at $2.50 per share.

4. LONG-TERM LEASING
At February 28, 1973, virtually all of the premises utilized by the Company and its subsidiaries were occupied under long-term leases requiring minimum annual payments of $135,900 for periods extending up to five years. Total rentals paid in the fiscal year ended February 28, 1973, on premises under long-term lease amounted to $139,739, including $10,873 under percentage of sales clauses.

5. EXECUTIVE REMUNERATION
The aggregate direct remuneration to the directors and senior officers amounted to $153,690.

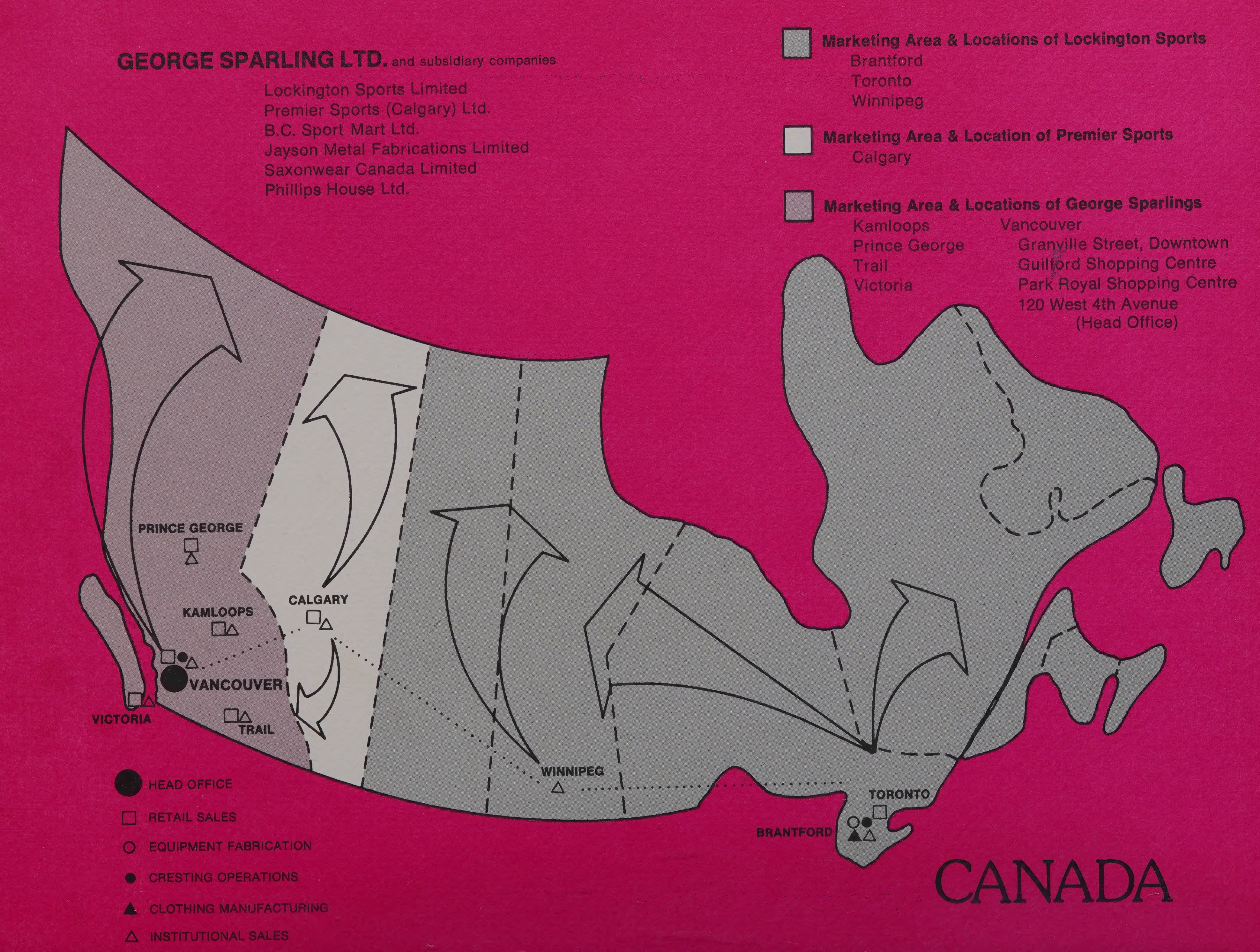
6. EARNINGS PER ORDINARY SHARE

Basic:	1973	1972
Net earnings	32.3c	33.5c

The earnings per ordinary share figures are calculated using the weighted monthly average number of ordinary shares outstanding duing their respective fiscal years.

Fully Diluted:	1973	1972
Net earnings	29.7c	32.3c

Fully diluted earnings per ordinary share are calculated to show the effect on earnings per ordinary share which would result if all the 8% preferred B shares had been converted into ordinary shares at the beginning of the year and if the outstanding stock options had been fully exercised at December 29, 1972, the date of the option agreement.


GEORGE SPARLING LTD. and subsidiary companies
Lockington Sports Limited
Premier Sports (Calgary) Ltd.
B.C. Sport Mart Ltd.
Jayson Metal Fabrications Limited
Saxonwear Canada Limited
Phillips House Ltd.
Marketing Area & Locations of Lockington Sports
Brantford
Toronto
Winnipeg
Marketing Area & Location of Premier Sports
Calgary
Marketing Area & Locations of George Sparlings
Kamloops
Prince George
Trail
Victoria
Vancouver
Granville Street, Downtown
Guilford Shopping Centre
Park Royal Shopping Centre
120 West 4th Avenue
(Head Office)
PRINCE GEORGE
KAMLOOPS
CALGARY
VANCOUVER
VICTORIA
TRAIL
WINNIPEG
TORONTO
BRANTFORD
HEAD OFFICE
RETAIL SALES
EQUIPMENT FABRICATION
CRESTING OPERATIONS
CLOTHING MANUFACTURING
INSTITUTIONAL SALES
CANADA

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